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SUBJECT: OECD: MARCH 20 COUNCIL DISCUSSION OF ENLARGEMENT AND
ENHANCED ENGAGEMENT

REF: PARIS 956 (NOTAL)

1. (SBU) Summary: The March 20 Council discussion of enlargement and enhanced engagement broke no new ground, with OECD Members holding to longstanding positions. Secretary General (SG) Gurria focused on the latest version of his informal paper, which continues to advocate opening discussions with five countries (Chile, Estonia, Israel, Russia and Slovenia) with a view to membership, undertaking priority consultations with Brazil, China, India and South Africa on furthering their relationships with the OECD and determining whether to move toward enhanced engagement or possible membership, undertaking consultations with Argentina, Egypt, Indonesia, Malaysia, Morocco, Singapore and Thailand to determine the scope and modalities of a future relationship, and giving a nod to all non-OECD EU member states who are in principle ready for membership given their accession process to the EU. Views differed on the status of Russia, the eligibility of all EU members, and the naming of countries in a Ministerial decision document. PermReps also reviewed accession procedures, including whether or not to front load conditions for membership and the respective roles of the Secretary General and the Council. On financing, divisions remain

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between those states that advocate each Member covering its recurring costs of membership and those who favor capacity to pay in determining level of contributions. The Chair of the Special Group on Financing tabled a proposal that tries to balance these two positions and could become the basis for compromise. More work is required, however, and while there is a consensus that some form of base fee should be imposed, the amount of that base fee as well as the timing of its implementation still need to be agreed. End Summary.

EU Wants to Lock in EU-8

2. (SBU) German Ambassador Hoffman (also speaking as EU President) was the first to react to the latest draft paper by the SG. He said that the EU and the Commission were prepared to accept a staged accession (based on sequencing) for the EU-8 candidates, each of which desired a signal that their membership aspirations would be met at some point. Hoffman also argued (implying, though not naming

Cyprus) that all EU-8 countries should be allowed to join OECD committees as observers in order to demonstrate their interest. Elaborating on a point made recently by the Latvian FM with respect to Russia (Reftel), Hoffman suggested that the OECD needed to ensure that new Members could not blackball other candidates. He concluded that he was not as concerned about the philosophical basis of enlargement, but rather the operative elements needed to move the process forward; "it is time for political compromise."

13. (SBU) Representatives from the EC and other EU states followed with interventions designed to reinforce the points made by the German Ambassador. The key themes were: all of the EU-8 candidates were eligible for membership, it was not acceptable to name only two (Estonia and Slovenia); other candidates should not be "blackballed" by new members; and a strong signal should be given that the door to the OECD should not be closed to anyone. The SG responded that he had recently been in Brussels where he had had a long conversation with EC President Barroso. The SG said he had disabused Barroso of the idea of automaticity of joining the OECD for EU members; there were other (Noboru) criteria beyond like-mindedness. He thought President Barroso had responded pragmatically, and as a result of this conversation there seemed to be a better understanding in Brussels of the enlargement process in Paris.

14. (SBU) Discussion on the EU-8 continued with EU members arguing for keeping paragraph 9 as part of the SG's paper. (Current text for para 9: The accession process to the European Union implies that Non-OECD Member States of the EU would in principle be eligible to join the Organization, but would be considered individually based on their merits and the interest of the Organization. Given their track-record of long-standing successful economic and structural reforms, as well as their active involvement in OECD work, accession discussions could start with Estonia and Slovenia. End text.) Turkey and Canada said that they could not/not support para 9 as written, with Australia, New Zealand, Korea and Japan expressing concerns about the "eligibility" language and the lack of mention of

the Noboru criteria. The SG commented that the language in para 9 would need to be worked. Ambassador Morella suggested deleting all names and empowering the SG to meet with EC and EU officials to work out the relationship between the OECD, the EU and candidate countries.

Front Loading of Conditions for Accession

15. (SBU) EU member state reps also took up para 15 (text: "New Members would be expected to support the present enlargement agenda as part of their undertakings upon accession"). Suggestions that commitments on the part of a new member not to block the accession of a future candidate led Australian Ambassador Ingram to point out that international law does not permit binding sovereign nations from taking future decisions. This in turn resulted in a long discussion on "front loading" conditions for membership, including for example the need to join the WTO or resign from the G-77 (requirements stressed by Switzerland), and the respective roles of the Secretary General and the Council during the negotiating process. Danish Ambassador Smidt asked whether conditions should be set prior to or after beginning discussions with candidate countries. He offered that the Council needed to discuss conditions earlier than later and suggested an informal meeting to review the roles of the SG and the Council. The SG responded that in all instances, the Council/Council was supreme. Legal Department Director Bonucci noted that proposed procedures for accession (Document C(2007)31) call for an initial discussion between the SG and candidates regarding their interest in joining the OECD, drafting a road map that would be approved by Council, and then presentation of the road map to the candidates. Bonucci advised that it would be better to present front loaded conditions in a document separate from the roadmap. Agreeing that the Council should have a greater role in the negotiating process, Italian Ambassador Cabras argued that the SG should be given an initial mandate, with a second set of instructions resulting from discussions with Council following preliminary consultations with the candidates.

Russia

¶6. (SBU) The discussion of front loading conditions was occasioned by concerns about Russia's future membership, including the possibility it would blocking future candidates (such at the Baltic states). The French, supported by most others, continued to press hard for including Russia in the first tranche of accession candidates. The Finnish Ambassador argued that an enlargement without Russia would be a very thin package. The SG responded that Russia has a special place based on its long-standing relationship with the OECD, and for that reason, he said, he continued to include Russia in the paragraph on membership. The SG noted that Russian reformers were telling him that membership would permit them to push continued reform, and again argued that this might be the last chance to bring Russia on board. SG Gurria said that he would produce another draft that he hoped would meet Russia's expectations.

¶7. (SBU) The SG asked Ambassador Morella pointedly whether the U.S. continued to back enhanced engagement as the/the operative word with respect to Russia. Ambassador Morella replied that affirmatively: we should not at this time separate Russia from the other BRICS, with whom the OECD should be prepared to offer strong programs of enhanced engagement. That said, we could give a separate nod to Russia's unique relationship.

The other BRICS

¶8. (SBU) Of the EU countries who spoke, it was of note that only France (which argued that the future of the OECD depended on enlargement with key countries such as Russia and Brazil) and the Netherlands (instructions were to move closer to the BRICS and other important, even if smaller, global economies) went beyond arguing for EU-8 membership. Australia, Canada, Japan, Korea, Mexico and New Zealand joined Ambassador Morella in calling for a focus on the

critical goal of engaging the BRICS to keep the OECD relevant. SG Gurria supported this point, noting that the BRICS are "big and important" and their economies are growing at a fast rate. When some questioned Brazil's interest in joining the OECD, for example, the SG reported on recent conversations with Brazilian authorities, including Ministers and the Brazilian Ambassador to France. He said that Brazil did not want to be seen as demandeur - left standing outside for a long period of time. What was needed was a signal from the OECD that "we want you." With this he thought Brazil would be prepared to request membership. (COMMENT: The OECD members remain divided between most of the Europeans who are pushing membership for the EU-8 and Russia and the non-Europeans who take the view that the future of the OECD rests outside of Europe. The EU appears set to take a decision in May that will lock in eventual membership for the EU-8 and possibly Russia, offer enhanced engagement to other BRICS and a few North African, Asian and Latin American countries, and keep costs of enlargement and enhanced engagement to a minimum. END COMMENT.)

Financing Issues

¶9. (SBU) Danish Ambassador Smidt, Chair of the Special Group on Financing, provided a report on the work of the Group to Council. Smidt introduced a Chair's proposal, which he stressed was his and did not command consensus of the Group. He made several key points about his proposal (copies e-mailed to EUR/ERA and EEB):

- (a) proposed a base fee of 2.4 million Euros (too high for some too low for others) based on the facts that the Task Force report on financing enlargement estimated 2.4 ME as the minimum cost of membership (with an average cost of 3.5 ME) and that the minimum share adjustment in the current scale of assessments is 2.4 ME;
- (b) chose fifteen (15) incremental steps in which Members not currently covering recurring costs would reach the base fee, important for balance and getting political agreement from capitals;
- (c) tied the 15 steps to enlargement (a step for each new member) which again would help capitals justify what, in many cases, would be substantial increases in contributions;
- (d) proposed that mitigation measures for the smallest countries be determined prior to agreeing on a financing package - the Chair will submit these proposed measures to the Special Group at its next

meeting; and

(e) floated the idea of abrogating the per capita abatement (PCA) for large, new members, although abrogation could hit hard several current members (i.e., Mexico and Turkey); the Chair said he would come forward with a proposal to meet some of the concerns that will be raised with abrogation.

¶10. (SBU) As the first to comment, the Greek Ambassador said that he was uncomfortable with linking everything to enlargement. There were two parts of the financing story. First, the OECD needs to deal with current budget restraints as evinced in the last several budget negotiations -- the Organization needed to take advantage of this opportunity to address its financial sustainability. Second, enlargement is really an additional issue in the entire budget complex. Picking up on Ambassador Courakis's points, Ambassador Morella offered that the proposal was "too low and too slow." With the cost of individual membership at more than 2.4 ME, who would pay the difference? On the 15 steps, Ambassador Morella suggested a time-limited process for reaching the base fee, with 10 steps (five biennial budget cycles). Tying increases to each new member's accession would be "lumpy" and unpredictable in terms of budget planning. The UK Deputy, Richard Moon, agreed with Ambassador Morella that we "have to mind the gap" and questioned the 15 step process. He was joined by the German and Korean Ambassadors in pushing for more ambitious and realistic targets. Of the other G-7 and larger contributors, only the French Deputy said that France could support the Chair's proposal. The Japanese Ambassador would have preferred a higher base and called for fewer steps. Spain joined in supporting a time bound process of covering costs, not tied to enlargement, and while preferring 3.5 ME could accept the 2.4 ME base fee.

¶11. (SBU) Not surprisingly, most of the small- and mid-size contributors argued that 2.4 ME was too high, not based on capacity

to pay, and was neither fair nor equitable. Finland's Ambassador, an exception, said that Helsinki would have preferred a smaller base fee but could accept 2.4 ME as a compromise, and agreed that 15 steps was too many. Norway and Switzerland joined Finland in questioning the 15-step approach, with the Swiss calling for a higher base fee. Even the Ambassador of New Zealand, one of the smaller contributors, said that 2.4 ME could be a basis for negotiations. She questioned, however, why the G-7 countries should not increase their contributions. Ireland continued to push its proposal of much smaller increases tied to enlargement, arguing that the mandate was to finance enlargement, not to redo the scale of contributions. Portugal, Luxembourg, Austria, Hungary, Slovakia, Poland and the Czech Republic joined in supporting the Irish, arguing that the Chair's proposal was unfair and not politically acceptable.

¶12. (SBU) Regarding the Chair's proposal to abrogate the per capita abatement (designed to assist large, lesser developed countries), both Mexico and Turkey argued that level of development should not be forgotten. In the case of Mexico, which is already covering its recurring costs, a lesser developed country would in essence be subsidizing richer, fully developed Members such as Belgium and Luxembourg.

¶13. (SBU) In response to comments, Ambassador Smidt reiterated that he felt 15 steps were needed to convince capitals - large increases in contributions would need political justification. He admitted that further work on the proposal was required, especially with respect to mitigation, where he planned to offer some suggestions. Nonetheless, he hoped that the proposal that he had put on the table could be the basis for further discussion, both in the Special Group and in the Council.

Enhanced Engagement

¶14. (SBU) Dutch Ambassador Boer, Chair of the External Relations Committee (ERC), gave an abbreviated report (due to the late hour) on the ERC's work on enhanced engagement. He said that outstanding issues include the definition/ wording of "enhanced engagement;" to whom should enhanced engagement be directed and how would costs be funded (the two issues are dependent to an extent on one another); and the role for regional programs. The Chair plans to bring these

issues, to be further examined by the ERC, to Council at its next meeting on April 11. There were no comments by Ambassadors regarding enhanced engagement.

Accession Procedure and OECD Acquis

¶15. (SBU) Legal Advisor Bonucci provided each delegation with a four-volume set of documents which lay out the OECD's acquis. Bonucci said these were self-explanatory and then turned to the recently drafted paper C(2007)31, "A Proposed Procedure for Future Accessions." This document, explained Bonucci, provides a common framework for developing specific "roadmaps" for each candidate. He stressed that this was a practical, not a political procedure. Danish Ambassador Smidt commented that past accessions had neglected one important process - multilateral review. While candidates negotiated with the Secretariat, there was no provision for Council discussion with representatives of the candidate states. Smidt suggested that some form of multilateral review be included in the accession procedure and was supported by Greek Ambassador Courakis. Bonucci assured the Council that the Secretariat had clear negotiating mandates that would protect the members states and their political prerogatives. Dutch Ambassador Boer proposed that an informal session of Heads of Delegation be scheduled to address questions of procedure (this session is now scheduled for April 5).

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